

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Sacaton Elementary School District No. 18

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 12, 2007

Governing Board
Sacaton Elementary School District No. 18
P.O. Box 98
Sacaton, AZ 85247-0098

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Heinfeld, Meech & Co., P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

We also noted that the District's auditors qualified their opinion on the District's financial statements for the year ended June 30, 2006, because the District did not maintain adequate records of its capital assets.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Sacaton Elementary School District No. 18 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$8.9 million it received in fiscal year (FY) 2006 to provide this education.

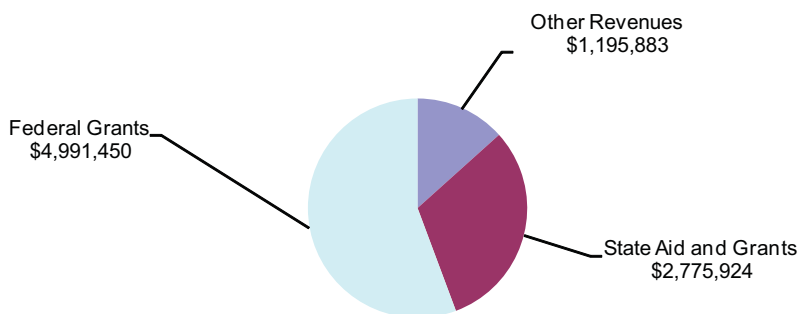
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. In addition, because of inadequate capital assets records, the District's auditors qualified their opinion on the District's financial statements for the year ended June 30, 2006. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2006

County: Pinal
Number of Schools: 2

Number of Students: 430
Grade Levels: K-8



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2005-2006* and *Sacaton Elementary School District No. 18 Single Audit Reporting Package for the Fiscal Year Ended June 30, 2006*.

The District should maintain an accurate and complete capital assets list

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, the District should have an accurate list of these assets to ensure they are properly identified, accounted for, and safeguarded. However, the District did not accomplish this objective. Specifically, the District's capital assets list did not include all assets

Because the District failed to maintain adequate capital assets records, the District's auditors issued a qualified opinion on the District's financial statements.

with a cost of \$5,000 or more; several buildings and improvements and land improvements were misclassified on the list; and assets were not always recorded on the list at their actual cost. In addition, the District did not update the capital assets list for disposals and did not always maintain documentation to support asset disposals. Further, the District did not reconcile capital asset acquisitions to capitalized expenditures or the current year's capital assets list to the previous year's list. Finally, the District did not take a physical inventory of equipment within the past 3 years.

Recommendations

The following procedures can help the District strengthen controls over its assets and ensure that its capital assets list is accurate and complete:

- Prepare and maintain a current and complete capital assets list that includes all equipment and vehicles with unit costs of \$5,000 or more and useful lives of 1 year or more, and all land, buildings, and related improvements costing \$5,000 or more.
- Maintain a capital assets list by category and ensure that each asset is classified in the appropriate asset category (i.e., land and improvements, buildings and improvements, and equipment).
- Record all assets at actual cost, including ancillary charges necessary to put the asset in its intended location and condition for use, such as sales taxes; freight and delivery charges; installation, assembly, and testing charges; and other incidental costs.
- Update the capital assets list at least annually for any additions, disposals, and transfers.
- Comply with *Arizona Administrative Code* (AAC) R7-2-1131 when disposing of surplus property. A "Request for Authorization to Dispose of Equipment" form or a similar form should be prepared for disposals by sale, trade-in, loss, obsolescence, or damage, and such items should be deleted from the capital assets list.

- Reconcile capital asset acquisitions to capital expenditures and the previous year's capital assets list to the current year's list. Investigate and resolve all differences.
- Perform a physical inventory of all equipment at least every 3 years and reconcile the results of the inventory to the capital assets list.

Instructions for performing a physical inventory of capital assets are listed on USFR pages VI-E-8 and 9.

The District should strengthen controls over competitive purchasing

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules and USFR guidelines as it did not always issue invitations for bids (IFB) or requests for proposals (RFP) for purchases requiring them. In addition, the District did not always follow competitive purchasing requirements when issuing RFPs as it did not obtain a written determination from the Governing Board that the use of competitive sealed bids was either not practicable or not advantageous to the District and did not include all applicable factors in the RFP. Also, the District opened an RFP prior to the closing date and did not maintain documentation to support that the RFP was time- and date-stamped when received. Further, the District did not always obtain oral or written price quotations for purchases requiring them, and did not always perform due-diligence procedures for purchases made through a cooperative.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

Recommendation

To comply with School District Procurement Rules and USFR guidelines, and strengthen controls over competitive purchasing, the District should perform the following:

- Issue IFBs or RFPs for purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689.
- Obtain a written determination from the Governing Board, before issuing competitive sealed proposals, that the use of competitive sealed bids is either not practicable or not advantageous to the District.
- Include all applicable factors listed in AAC R7-2-1042 in its RFPs and retain all supporting documentation.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

- Maintain documentation, such as time- and date-stamped proposal envelopes or packaging, as evidence that proposals were time- and date-stamped upon receipt.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations for at least three vendors for purchases estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Perform and document due-diligence procedures on at least a sample of the purchasing cooperatives' contracts that the District wishes to use.

The District should establish an appropriate travel policy and improve controls over expenditure processing

Arizona Revised Statutes §15-342(5) requires school district governing boards to prescribe travel policies, procedures, and set amounts for paying lodging and meal expenses of employees and governing board members traveling on district business.

The District is responsible for ensuring that tax monies are spent only for appropriate district purposes and that amounts paid to district employees and governing board members do not exceed the standard mileage, meal reimbursement, and lodging reimbursement rates established by the Arizona Department of Administration (ADOA). However, it appears the District did not fulfill its responsibility since its travel policy allowed employees to obtain 80 percent of per diem in advance and did not require subsequent proof of travel to be submitted to support the amount advanced. In addition, the District's travel policy allowed reimbursement only for one-way travel; however, governing board members received round-trip mileage reimbursement.

The District's travel policy paid up to 80 percent of per diem with no supporting documentation.

Further, the District spends public monies to purchase goods and services, so it is essential that the District follow procedures designed to help ensure that its purchases are properly approved before committing district monies and that its expenditures are adequately supported. However, the District's Governing Board did not establish and maintain formal written policies governing the use of credit cards, and the District did not always maintain receipts or other supporting documentation for all credit card purchases. In addition, the District did not always ensure that sufficient cash was available before authorizing expenditures and did not always prepare purchase orders before ordering goods and services.

The District did not always maintain receipts for credit card purchases.

Recommendations

The following policies and procedures can help the District establish an appropriate travel policy and can help strengthen controls over expenditure processing:

Travel

- Require all employees and Governing Board members, including those who receive travel advances, to prepare travel claims for all travel expenditures.
- Verify that travel claims are supported by detailed receipts, invoices, and conference brochures, as applicable, before approving the claims and retain all supporting documentation. Require that amounts provided in advance that exceed actual travel expenditures be returned to the District.
- Reimburse employees and Governing Board members for meals and lodging within the limits set forth by the ADOA.
- Reimburse employees and Governing Board members for mileage at the standard rate established by the ADOA.
- Reimburse all employees, including Governing Board members, in accordance with district-approved travel policies.

Expenditure Processing

- Establish formal written credit card policies that require authorized employees to submit credit card receipts and document the specific district purpose for each expenditure.
- Verify that sufficient cash is available in cash-controlled funds before authorizing expenditures.
- Prepare and approve purchase orders prior to ordering goods and services.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

The District should maintain and report accurate financial information

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, the District must have strong internal controls to ensure the reliability of its accounting records. However, the District did not fully accomplish this objective. Specifically, the District did not always record state revenue, transfers, and purchases of goods and services in accordance with the USFR Chart of Accounts. In addition, the District did not

always maintain supporting documentation for journal entries and did not have procedures in place to ensure that journal entries were signed and approved by an authorized individual.

The District exceeded its unrestricted capital budget limit and did not complete the required budget revision.

Further, the District's Governing Board received notification from ADE that its Unrestricted Capital Outlay expenditure budget was in excess of the unrestricted capital budget limit, but it did not complete the required December budget revision. Also, the District's actual expenditures reported on the annual financial report (AFR) did not agree with the District's accounting records for numerous funds.

Finally, the District's compensated absence schedules contained numerous errors, and errors on employees timesheets resulted in overpayments to several hourly personnel.

Recommendations

The following procedures can help the District record and report accurate financial information:

- Classify all transactions in accordance with the USFR Chart of Accounts.
- Ensure that journal entries are reviewed and approved by district management before they are recorded in the accounting records. Documentation for each journal entry should contain explanations, attachments, or references to support the entry, and the signature or initials of the individual making the entry and the official authorized to approve it.
- Hold a public meeting on or before December 15 to revise the expenditure budget if the District's Governing Board receives notification from ADE that the expenditure budget is in excess of the general budget limit, unrestricted capital budget limit, or the soft capital allocation limit by \$1,000 or more. Submit the revised expenditure budget to ADE and the CSS no later than December 18.
- Verify that revenues, expenditures, and fund balances presented on the AFR agree with the District's accounting records. Assign a second employee to review the AFR before submitting it to ADE.
- Assign a second employee to review and recalculate compensated absence schedules. Ensure the accuracy of the employees' timesheets by having the employees' supervisors check the timesheets for mathematical and clerical accuracy, and approve them.

USFR §III provides guidance for classifying financial transactions.

The District's controls over cash should be improved

Because of the relatively high risk associated with cash transactions, the District should maintain effective internal controls to safeguard cash and ensure that it is promptly and accurately recorded and deposited. However, the District did not have adequate controls over its cash receipts and disbursements. Specifically, the District did not use prenumbered cash receipt forms for monies received. In addition, student activities cash collection reports were not always supported by an accounting of prenumbered tickets, cash receipt forms, cash register tapes, or a count of items on hand before and after the sale. Also, the District did not always have two authorized individuals sign student activities checks. Finally, the District's book balance used to reconcile student activities bank statements did not always agree with the club list balance in the District's records.

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

Recommendations

To help strengthen controls over its cash, the District should prepare and retain prenumbered and numerically controlled cash receipt forms for each cash payment received. Also, the District should ensure that prenumbered cash receipt forms or tickets, inventory counts, or cash register tapes are used to document cash collected at student activities events. For events where it is not practical to determine the items sold, such as bake sales, student clubs should still prepare a cash collection report to document cash collected. In addition, the District should ensure that all student activities checks are signed by the student activities treasurer and one other employee authorized by the Governing Board. Finally, the District's book balance used to reconcile student activities bank statements should agree with the club list balance in the District's records.

The District should ensure the accuracy of its student attendance records

The State provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to help ensure that the districts receive the appropriate amount of state and local funding. However, the District did not always maintain accurate student attendance records as entry dates recorded in the District's computerized attendance system did not always agree with the entry form. In addition, the District incorrectly included preschool students without disabilities in its average daily membership (ADM). Also, the District did not always report partial-day absences correctly for elementary and junior high students.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

Recommendations

The District should ensure that student membership and absences are recorded and reported accurately to ADE. To help ensure information submitted to ADE is accurate, a second employee should verify that the entry dates recorded in the attendance records agree with the entry forms. In addition, the District should submit the ADM for its preschool program only for students with disabilities. Also, the District should ensure that partial-day absences are recorded in accordance with the ADE's *Instructions for Required Reports*.